



# Mitigating Construction Risk with Subcontractor Default Insurance

In today's high-stakes construction environment, risk is a constant companion. Whether it's fluctuating material costs, unpredictable weather, or labor shortages, every project faces challenges. But few risks are as potentially disruptive – and costly – as subcontractor default. That's why more and more general contractors, developers, and project owners are turning to Subcontractor Default Insurance (SDI) as a key part of their risk management arsenal.

At Symphony Build and Symphony REACT, we've worked with clients across the commercial real estate, construction, and hospitality sectors to implement effective risk transfer strategies. We have seen firsthand how SDI can be both a game-changer and a double-edged sword. Let's walk through what SDI really is, why it matters, and what firms need to keep in mind when considering it.

## A Safety Net with Teeth

Imagine a GC in the middle of a large-scale project. It's on schedule, on budget, and then – boom – a key subcontractor fails to deliver. Maybe they overextended themselves. Maybe they just weren't up to the task. Regardless, what's left is a gaping hole in the project timeline and mounting costs.

That's where SDI steps in. Unlike traditional surety bonds, which can involve lengthy claim processes and third-party control, SDI is a first-party insurance product. It provides coverage directly to the general contractor for the additional costs associated with completing the work of a defaulted subcontractor. We're talking rework, delays, replacement subs – the whole package.

But SDI is more than just a reactive tool. It sends a strong message to owners and capital partners: "We're thinking ahead. We've got contingencies. We're managing risk like pros." In fact, some of our clients have seen improved creditworthiness and better access to capital simply by including SDI as part of their overall insurance strategy.

## The Real-World Trade-Offs

It is important to be clear-eyed. SDI isn't cheap. The premiums can be a tough pill to swallow – especially for mid-sized firms operating on lean margins. And, the policies are complex. We're not talking about off-the-shelf coverage here. These are highly customized contracts that require a close partnership between the contractor, broker, and insurer to optimize the coverage.

Despite its unique benefits, an SDI policy is not a panacea. It's not a replacement for due diligence. We've seen cases where reliance on insurance led to a relaxed approach to vetting subcontractors – and the results weren't pretty. SDI should be the final layer of protection, not the first line of defense.

There are also limitations to consider. Policy exclusions, claims caps, and coverage limitations all need to be examined and can cause unexpected shortfalls if these issues are not carefully reviewed.

## Why It Still Makes Sense

Despite its costs and complexities, SDI has become a strategic differentiator for many of our clients. When used correctly, it creates the ability to absorb shocks without derailing an entire project. It helps to control a firm's destiny rather than leaving it in the hands of a third-party surety or an underperforming subcontractor.

We believe SDI is best viewed as part of a broader risk strategy – one that includes strong prequalification processes, active jobsite monitoring, and real-time financial oversight. In that context, it's incredibly powerful.

At Symphony Build, we help our clients integrate SDI into a comprehensive insurance and risk management platform. We bring decades of experience, the insight of a national brokerage, and the hands-on service expected from a boutique firm. Our mission is to help define, control, and communicate risk profiles in ways that create confidence – with insurers, investors, and clients.

## Closing Thoughts

We often say that insurance shouldn't just protect the downside – it should help unlock the upside. SDI, when applied thoughtfully, does exactly that. It empowers firms to take on bigger projects, move faster, and compete with confidence.

At Symphony Build and Symphony REACT, we're proud to be changing the way our clients experience insurance. Our clients don't settle for standard solutions – and neither do we.

## Let Us Play For You!

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Symphony Risk Solutions is a full-service national insurance brokerage with specialty businesses focused on multiple industries including its Build and REACT business that support the needs of real estate, hospitality, construction, and commercial and homeowner associations. These Symphony businesses provide creative solutions that help with risk mitigation, budget optimization, and risk transfer.